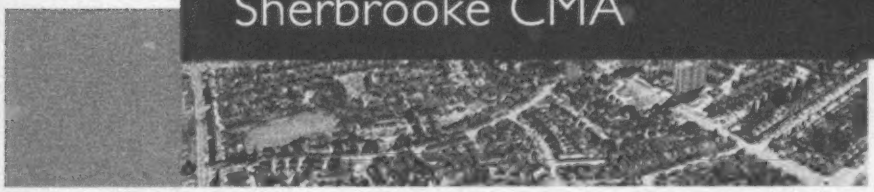
# HOUSING MARKET OUTLOOK

## Sherbrooke CMA



Canada Mortgage and Housing Corporation

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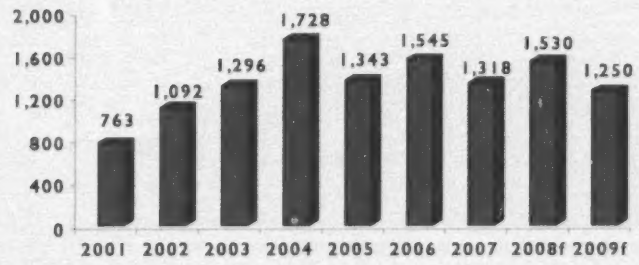
## Sherbrooke CMA housing starts and MLS® sales to fall in 2009

### A slightly less favourable labour market in 2009

In 2007, the labour market in the Sherbrooke census metropolitan area (CMA) was characterized, among other things, by the creation of over 2,000 jobs (+3 per cent) and a significant decrease in the number of unemployed individuals. Personal disposable income per capita had in fact increased by 5.3 per cent. However, things changed slightly in the first nine months of 2008: the area now shows a small loss of 375 jobs, or 0.5 per cent, compared to the same period last year. The drop in full-time jobs was solely responsible for this loss, as part-time jobs posted a small gain (+0.7 per cent). The Bank of Canada now expects Canada's economic growth to moderate in 2008 and 2009. Consequently, the Sherbrooke labour market will be slightly less favourable this year and next, which

Figure 1

**Housing Starts - Sherbrooke CMA**




Source: CMHC f: Forecasts

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will not be without implications for the Sherbrooke housing market.

Still, the economic outlook for 2009 does appear brighter. Public investments included in the Quebec government's infrastructure plan should somewhat stimulate the regional economy. Numerous employers, such as the CHUS-Fleurimont, CGI and Charles River Laboratories, will also be seeking new talent during this period.

## Mortgage rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

## Net migration in the CMA expected to decline slightly in 2009

In 2007, net migration in the CMA was about 1,150 people, the highest level in the last three years. However, the same scenario is unlikely to occur in 2008, since the preliminary data[1] show a decrease in newcomers planning to settle down in the Estrie area this year. After the first two quarters, this level was down 7 per cent, compared to the same period in 2007. In addition, still attracted by the abundance of job opportunities, many more people will head out West, which will lower net migration in the CMA. This year, 1,100 migrants will therefore be looking for dwellings (mainly rental) in the CMA, which will dampen housing demand.

Net migration in the CMA should improve next year, however, as the Quebec government wants to substantially increase the number of immigrants by 2010. As interprovincial migration should still remain favourable to the Western provinces over the same period, only the increase in international migrants will help net migration rise in 2009 and get close to the 2007 level of 1,150 people.

## Resale market to become more balanced

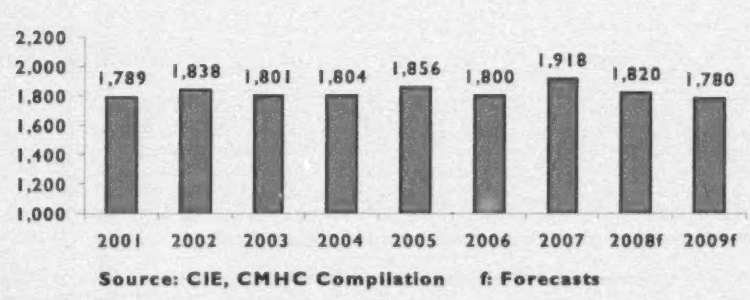
The resale market in the Sherbrooke CMA stayed very active in 2007, with 1,918 transactions registered, for a 7-per-cent increase over the same period in 2006. The factors that likely accounted for this increase include healthy labour market conditions in 2007 and relatively low mortgage rates.

The situation is very different this year: from January to September, MLS® sales are down by 5 per cent from the same period a year ago, with the decrease affecting mainly less affordable housing. This small decrease will not be erased by the end of 2008, such that MLS® sales will fall by 5 per cent for the year, to 1,820 transactions.

In 2009, the favourable financing conditions and improved labour market situation should help the resale market recover. As these economic changes will be occurring gradually and not all at once at the beginning of the year, MLS® sales will decrease by 2 per cent in 2009, to 1,780 transactions.

Contrary to home sales, properties listed in the MLS® system from January to September were up

Figure 2




[1] Source: Ministère de l'Immigration et des Communautés culturelles

16 per cent compared to the same period in 2007 (1,160 in 2007, compared to 1,350 in 2008). These numbers have been rising steadily for the past five years. In fact, all housing types registered increases in listings, but especially condominiums (+40 per cent). The upward trend will also continue in 2008 and 2009, with active listings rising by 17 per cent this year to 1,365 units and by 8 per cent next year to 1,480 units.

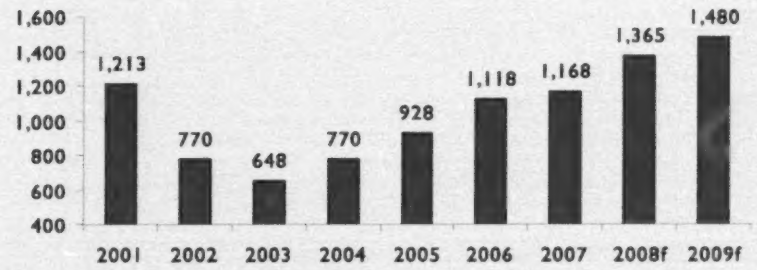
Three factors effectively suggest that these increases will occur. First, with decreasing MLS® sales, homes will stay longer on the market. Second, a broader choice will prompt potential buyers to visit more houses before making a purchase, therefore lengthening the listing period. Third, new listings will also go up in the CMA and increase the housing supply.

Given that sales and listings will follow opposite trends, the Sherbrooke CMA market will become balanced, with the seller-to-buyer ratio[2] reaching 8 to 1. This means that the power of sellers on the market will shift somewhat and that price increases will be less significant. The average price of properties sold through the MLS® system will therefore reach $186,750 this year (+1 per cent) and $188,600 in 2009 (+1 per cent).

In the first three quarters of 2008, the increase in the average price was in fact very small (half of a percentage point). This can be mainly explained by the decrease in the average selling price of homes in the upper price range ($250,000 or more) over the same period, which put downward pressure on the overall average price. This phenomenon occurred mainly in Magog and in the areas surrounding the city of Sherbrooke and therefore partly accounts for the small price increase noted to date.

Figure 3

**MLS® Listings - Sherbrooke CMA**




**Source: CIE, CMHC Compilation** **f: Forecasts**

The Magog resale market also stands out from the Sherbrooke CMA market in another respect. After three quarters, the number of properties sold (228) was 21 per cent below the same period in 2007 (288), and the MLS® average price was down by 3 per cent. There is every indication that Magog will end 2008 with decreases in both home sales and the average price[3]. In terms of sales, however, 2007 was a record year in Magog, relativizing this decline and minimizing its importance. In 2009, MLS® sales will remain stable in Magog, when compared to the 2008 level.

## Housing starts to decrease in 2009

In 2008, housing starts will increase by 16 per cent in the Sherbrooke CMA, from 1,318 units in 2007 to 1,530 this year. Both the single-detached and the multiple housing segments will contribute to this increase, but single-detached home construction will show better results.

During the first three quarters of the year, foundations were laid for 580 single-detached houses, a historically high level. Strong employment growth in 2007 is one of the factors explaining this increased activity.

However, the more moderate economic growth and job creation currently observed will have an impact on construction in this segment by the end of 2008 and on through next year. The new home

[2] A ratio below 8 to 1 signifies a seller's market; a ratio between 8 to 1 and 10 to 1 signifies a balanced market; and a ratio above 10 to 1 signifies a buyer's market.

[3] As mentioned earlier, the decrease in the average price was entirely due to the decline registered in the upper-range segment, as increases were posted in all the lower price ranges.

market (as opposed to the resale market) usually reacts less rapidly to changes in economic conditions, as several steps must be completed before construction can begin, such as buying a lot and checking zoning bylaws.

In 2008, 780 single-detached houses will be started, compared to 666 in 2007 (+17 per cent). In 2009, in addition to the moderating economic growth, increasing competition from the resale market, due to the rise in listings, will cause starts of this type to fall by 23 per cent to 600 units.

As for multiple-family (semi-detached, row and apartment) housing construction in the CMA, starts were down 16 per cent after nine months of activity in 2008. While semi-detached and row home building increased by 10 units (from 68 in 2007 to 78 in 2008), apartment starts fell by 20 per cent[4] (from 459 units in 2007 to 367 in 2008).

This 16-per-cent decrease in multiple housing starts may appear irreversible at first glance, but construction in this segment will end 2008 on the rise (+15 per cent), with 750 units, versus 652 in 2007, as two large rental projects are currently under construction. In fact, a 150-unit retirement home will soon be added to Magog's rental housing stock, and some 50 social housing units are being built in Sherbrooke.

As in the case of the single-detached home segment, multiple housing starts will also fall in 2009. The construction of semi-detached and row homes and condominium units will not be as hard hit by the decrease in activity, thanks to their relative affordability. Supply of these housing types is rising sharply on the resale market, however, which should still slow the pace of building for these types of dwellings. Construction should therefore get under way on around 100 semi-detached and row homes and 125 condominium units next year, or about the same volumes as in 2008.

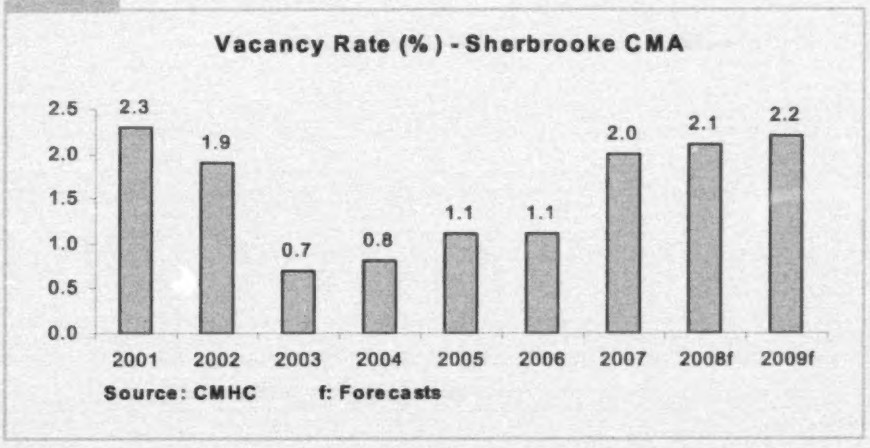
In addition, two factors explain why fewer rental housing units will get under way next year. First, the vacancy rate increase between 2008 and 2009 (see next section) will prompt builders to slow the pace of rental housing construction. Second, the rental housing starts volume for 2008 is being inflated by the construction of a large retirement home and some new social housing units, which means that the level of activity in 2009 will not be able to exceed the 2008 results. About 400 rental housing units will therefore be started next year, compared to 500 in 2008.

Overall, multiple housing starts in the Sherbrooke CMA will fall by 13 per cent in 2009 (from 750 units in 2008 to 650 in 2009). However, large rental housing projects could still get under way (Sommet de la Santé, Carré 100T) next year, which would change the current forecasts.

## Rental market easing but will remain tight

Following the hike in the vacancy rate posted last year, from 1.1 per cent in 2006 to 2 per cent in 2007, the rental market will ease slightly in the Sherbrooke CMA in 2008[5]. The

Figure 4




[4] Starts of condominium apartments were up however, meaning that the decrease was entirely due to decline in the construction of apartments intended for the rental market.

[5] Since 2008, vacancy rate calculations have been based on rental housing universe data excluding apartments contained in retirement homes. The vacancy rate figures mentioned in this text and in figure 4 were therefore adjusted for comparison with the 2008 rate.

current demographic and economic context is pointing to a more moderate demand in this market, at the same time as 300 new apartments should be added to the rental housing stock.

The very slight increase in demand will be mainly caused by the decrease in net migration in the area and by moderate job growth for young people in the area. In these conditions, the vacancy rate will reach 2.1 per cent in 2008, up by one tenth of a percentage point over 2007.

The results of the latest CMHC Rental Market Survey (conducted in April 2008) are in line with the above-mentioned forecast. In fact, the rate increased slightly, from 1.4 per cent in 2007 to 1.6 per cent in 2008[6], which bodes well for the results of our next survey, to be released in December 2008.

In 2009, as is the case this year, the rental market will continue to ease slightly, with the vacancy rate climbing to 2.2 per cent. While few traditional rental apartments[7] will be added to the existing rental housing stock, demand in this market will only be bolstered by the anticipated moderate gains in net migration and youth employment.

Although market conditions will be easing, the average rent for two-bedroom apartments will increase by 3 per cent in 2008 and 2009, reaching $545 and $560, respectively. It should be recalled that, even if the vacancy rate is on the rise, the proportion of vacant two-bedroom apartments remains relatively low, putting upward pressure on rents.

## Retirement home vacancy rate should increase

According to the latest Rental Market Survey results for the Sherbrooke CMA, the retirement home vacancy rate climbed by 3 percentage points between 2007 and 2008 (from 4.5 per cent in 2007 to 7.5 per cent in 2008).

Weaker demand for units in retirement homes, combined with a supply that remained relatively stable, accounted for this increase.

Two major factors suggest that the retirement home vacancy rate will continue to increase in 2008 and 2009. First, the slower growth in the population aged 75 years or older[8], the main clients in this market, should curb the increase in demand. Second, about 350 new retirement housing units will be added to the market by 2009, for an 11-per-cent increase in supply compared to the 2007 level. Other projects are also being planned and could double the number of units to almost 700 by 2010. Given the surge in supply and the slowdown in demand, the vacancy rate will rise over the next two years in the Sherbrooke CMA.

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[6] See footnote 5.

[7] Rental apartments not contained in retirement homes.

[8] ISQ forecasts based on 2001 Census data.

## Forecast Summary (1)
## Sherbrooke CMA
## Fall 2008

| | 2005 | 2006 | 2007 | 2008f | % chg | 2009f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 1,856 | 1,800 | 1,918 | 1,820 | -5 | 1,780 | -2 |
| MLS® Active Listings | 928 | 1,118 | 1,168 | 1,365 | 17 | 1,480 | 8 |
| MLS® Average Price ($) | $162,369 | $168,092 | $184,892 | $186,750 | 1 | $188,600 | 1 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 714 | 588 | 666 | 780 | 17 | 600 | -23 |
| Multiples | 629 | 957 | 652 | 750 | 15 | 650 | -13 |
| Starts - Total | 1,343 | 1,545 | 1,318 | 1,530 | 16 | 1,250 | -18 |
| **Average Price ($) - excluding Magog:** | | | | | | | |
| Single-Detached | $177,110 | $191,177 | $195,868 | $205,000 | 5 | $213,000 | 4 |
| New Housing Price Index (% chg) (Que.) | 4.9 | 4.4 | 4.2 | | - | | - |
| **Rental Market - excluding Magog** | | | | | | | |
| October Vacancy Rate (%) | 1.1 | 1.1 | 2.0 | 2.1 | - | 2.2 | - |
| Two-bedroom Average Rent (October) ($) | 505 | 515 | 529 | 545 | - | 560 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 5.8 | 6.3 | 7.35 | 6.75 | - | 6.31 | - |
| Mortgage Rate (5 year) (%) | 6.3 | 6.45 | 7.54 | 7.05 | - | 6.92 | - |
| Annual Employment Level - excluding Magog | 80,900 | 81,900 | 84,100 | 84,100 | 0 | 84,600 | 1 |
| Unemployment rate (%) - excluding Magog | 7.3 | 7.9 | 6.4 | 6.5 | - | 6.5 | - |
| Net Migration - excluding Magog | 807 | 958 | 1,182 | 1,100 | -7 | !,150 | 5 |

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.
MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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